

THE NRA FOUNDATION, INC.

FINANCIAL STATEMENTS
as of December 31, 2018 and 2017
AND
REPORT THEREON

THE NRA FOUNDATION, INC.

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To the Board of Trustees
The NRA Foundation, Inc.

RSM US LLP

Report on the Financial Statements

We have audited the accompanying financial statements of The NRA Foundation, Inc. (the Foundation), which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The NRA Foundation, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 1 to the financial statements, the Foundation adopted the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in the issuance of the statement of functional expenses and additional footnote disclosures and changes to the classification of net assets. Our opinion is not modified with respect to this matter.

RSM US LLP

McLean, Virginia
March 13, 2019

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THE NRA FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
as of December 31, 2018 and 2017

ASSETS

	2018	2017
Cash and cash equivalents	\$ 10,220,309	\$ 11,215,742
Investments	77,520,315	82,423,980
Pledges and contributions receivable, net	9,171,461	4,461,823
Accounts receivable, net of allowance of \$7,250 and \$33,500, respectively	903,537	959,558
Due from affiliates	262,718	1,781,472
Inventory, net	9,422,349	9,176,763
Property and equipment, net	832,211	992,649
Other assets, principally museum collections, net	26,858,536	26,341,239
Split interest agreements	1,039,709	1,045,677
	<u>136,231,145</u>	<u>138,398,903</u>
Total assets	\$ <u>136,231,145</u>	\$ <u>138,398,903</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued liabilities	\$ 2,182,802	\$ 2,051,026
Grants payable	248,424	207,141
Annuities payable	<u>2,437,071</u>	<u>2,315,904</u>
Total liabilities	<u>4,868,297</u>	<u>4,574,071</u>
Without donor restrictions	9,104,542	16,889,093
With donor restrictions	<u>122,258,306</u>	<u>116,935,739</u>
Total net assets	<u>131,362,848</u>	<u>133,824,832</u>
Total liabilities and net assets	\$ <u>136,231,145</u>	\$ <u>138,398,903</u>

The accompanying notes are an integral part of these financial statements.

THE NRA FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
for the years ended December 31, 2018 and 2017

	2018		2017	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
	Total		Total	
Revenue and other support:				
Friends of NRA proceeds of \$72,662,603 and \$69,683,103				
net of direct benefit expenses of \$39,353,154 and				
\$39,178,011 in 2018 and 2017, respectively	\$ 16,409,804	\$ 16,899,645	\$ 15,161,676	\$ 15,343,416
Contributions, net	4,194,481	12,963,754	4,368,911	6,687,796
Net investment income	(663,489)	(4,145,956)	1,310,017	9,003,004
Change in value of split interest agreements	-	29,826	-	(225,245)
Other income	735,492	(2,260)	632,000	107,544
Assets released from restrictions	20,422,442	(20,422,442)	18,569,292	(18,569,292)
Total revenue and other support	41,098,730	5,322,567	40,041,896	12,347,223
Expenses:				
Program	35,338,765	-	35,956,519	-
Administrative	1,929,461	-	1,460,773	-
Fundraising	11,615,055	-	5,454,572	-
Total expenses	48,883,281	-	42,871,864	-
Change in net assets	(7,784,551)	5,322,567	(2,829,968)	12,347,223
Net assets, beginning of year	16,889,093	116,935,739	19,719,061	104,588,516
Net assets, end of year	\$ 9,104,542	\$ 122,258,306	\$ 16,889,093	\$ 116,935,739
				\$ 133,824,832

The accompanying notes are an integral part of these financial statements.

THE NRA FOUNDATION, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
for the years ended December 31, 2018 and 2017

	2018			2017				
	Program	Administrative	Fundraising	Total	Program	Administrative	Fundraising	Total
Grants and education	\$ 30,417,376	\$ -	\$ -	\$ 30,417,376	\$ 34,682,335	-	-	\$ 34,682,335
Costs of goods sold	-	-	33,943,899	33,943,899	-	-	34,062,563	34,062,563
Management fees	3,146,379	1,572,416	8,889,047	13,607,842	473,709	984,815	3,456,459	4,914,983
Occupancy	34,200	97,200	2,242,543	2,373,943	34,200	97,200	2,035,875	2,167,275
Other operating	414,672	7,193	1,592,178	2,014,043	159,535	15,329	1,043,650	1,218,514
Meetings and travel	469,446	31,741	1,175,612	1,676,799	9,592	22,133	-	31,725
Postage and shipping	678,852	7,753	1,029,411	1,716,016	543,787	3,905	815,227	1,362,919
Advertising and promotion	-	-	720,836	720,836	-	-	1,955,158	1,955,158
Legal, audit, taxes and fees	-	92,236	631,047	723,283	-	111,444	606,407	717,851
Depreciation and amortization	17,332	56,595	102,084	176,011	17,362	56,495	106,603	180,460
Printing and publications	8,879	44,546	343,334	396,759	15,232	137,816	549,270	702,318
Office supplies and services	151,629	19,781	298,218	469,628	20,767	31,636	1,371	53,774
Total expenses	35,338,765	1,929,461	50,968,209	88,236,435	35,956,519	1,460,773	44,632,583	82,049,875
Less: Friends of NRA direct benefit expenses	-	-	(39,353,154)	(39,353,154)	-	-	(39,178,011)	(39,178,011)
	\$ 35,338,765	\$ 1,929,461	\$ 11,615,055	\$ 48,883,281	\$ 35,956,519	\$ 1,460,773	\$ 5,454,572	\$ 42,871,864

The accompanying notes are an integral part of these financial statements.

THE NRA FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (2,461,984)	\$ 9,517,255
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Amortization and depreciation	176,011	180,460
Provision for losses on pledges, contributions and accounts receivable	295,750	190,250
Provision for losses (gains) on inventory	24,372	(20,000)
Provision for (gains) losses on other assets	(1,500)	55,600
Donated assets, museum collections	(451,000)	(881,295)
Donated assets, securities with and without donor restrictions	(57,271)	(210,070)
Contributions restricted for investment in endowment	(409,635)	(944,445)
Net realized and unrealized loss (gain) on investments	7,169,807	(8,477,607)
Increase in discount on pledges receivable	40,493	1,149
Decrease in value of split interest agreements	5,968	227,360
Changes in assets and liabilities:		
Increase in pledges and contributions receivable	(5,072,131)	(728,286)
Decrease (increase) in accounts receivable	82,271	(222,989)
Decrease (increase) in due from affiliates	1,518,754	(5,704,088)
(Increase) decrease in inventory	(269,958)	2,922,059
(Increase) decrease in other assets	(80,370)	260,244
Increase in accounts payable and accrued liabilities	131,776	10,050
Increase in grants payable	41,283	196,941
Total adjustments	<u>3,144,620</u>	<u>(13,144,667)</u>
Net cash provided by (used in) operating activities	<u>682,636</u>	<u>(3,627,412)</u>
Cash flows from investing activities:		
Purchases of investments	(18,648,420)	(18,790,040)
Proceeds from sale of investments	16,439,549	15,875,341
Purchases of property and equipment	<u>-</u>	<u>(11,528)</u>
Net cash used in investing activities	<u>(2,208,871)</u>	<u>(2,926,227)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment	409,635	944,445
Investments subject to new annuity agreements	312,407	226,330
Payments on annuity obligations	<u>(191,240)</u>	<u>(282,449)</u>
Net cash provided by financing activities	<u>530,802</u>	<u>888,326</u>
Net decrease in cash and cash equivalents	(995,433)	(5,665,313)
Cash and cash equivalents, at beginning of year	<u>11,215,742</u>	<u>16,881,055</u>
Cash and cash equivalents, at end of year	<u>\$ 10,220,309</u>	<u>\$ 11,215,742</u>

The accompanying notes are an integral part of these financial statements.

THE NRA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

The NRA Foundation, Inc. (the Foundation) is a non-profit organization incorporated in 1990 under the laws of the District of Columbia. The Foundation is organized to be operated exclusively in support of charitable, scientific and educational purposes. The Foundation is supported primarily by Friends of NRA (FONRA) fundraising events and other charitable contributions.

The vision of the NRA Foundation is to provide lasting financial stability for the NRA's programs, teaching the safe and responsible use of firearms in a free society and the understanding of one simple truth – that personal freedom must be preserved by the right of individuals to keep and bear arms.

Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis and in conformity with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amount of revenue and other support and expenses during the reporting period. Actual results could differ from those estimates.

Classification of Net Assets

To identify the observance of limitations and restrictions placed on the use of the resources available to the Foundation, the accounts of the Foundation are maintained in two separate classes of net assets: without donor restrictions, and with donor restrictions, based on the existence or absence of donor-imposed restrictions.

Net assets without donor restrictions represent resources that are not restricted by donor-imposed stipulations. They are available for support of the Foundation's general operations.

Net assets with donor restrictions represent contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations. Some of these restrictions are temporary in that they either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments purchased with a maturity of three months or less at the date of purchase to be cash equivalents.

Concentration of Credit Risk

The Foundation maintains a cash balance in excess of federally insured limits in an interest bearing account. The Foundation's policy is to deposit funds only in financially sound institutions. Nevertheless, these deposits are subject to some degree of credit risk. Investments are maintained in financial institutions. Accounts receivable primarily represent funds due to the Foundation for contributions and from FONRA events and committees.

THE NRA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

The Foundation invests in a professionally managed portfolio that primarily contains money market funds, equity securities, and fixed income securities. Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in value of such investments, it is at least reasonably possible that changes in risk in the near term would materially affect investment balances and the amounts reported in the financial statements.

Investments

Investments consist primarily of money market funds, equity securities, and fixed income securities which are carried at fair value, as determined by an independent market valuation service using the closing prices at the end of the period. In calculating realized gains and losses, the cost of securities sold is determined by the specific-identification method. To adjust the carrying value of the investments to their fair value, the change in fair value is included in revenue and other support in the statements of activities.

Pledges and Contributions Receivable

Unconditional pledges and contributions receivable consist of irrevocable and measurable bequest proceeds due to the Foundation and donor promises to give in future periods, usually over a period of one to ten years. Pledges due in more than one year are recorded at the present value of estimated cash flows, discounted by rates of 1.98% to 3.03% for the year ended December 31, 2018 and rates of 1.98% to 2.61% for the year ended December 31, 2017. An allowance for uncollectible pledges and contributions receivable is provided based upon management's judgment of potential defaults.

Accounts Receivable

Accounts receivable consist of start-up funds and current year event proceeds due from FONRA committees. Start-up funds are advanced to each new FONRA committee and are returned to the Foundation only upon dissolution of the committee.

Inventory

Inventory consists primarily of artwork and shooting sports and hunting supplies to be utilized at FONRA fundraising events. Inventory is stated at the lower of cost or net realizable value, with cost determined using the first-in, first-out method. Adjustments are made to reduce the inventory to net realizable value in the case of obsolescence.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Expenditures for maintenance and repairs, which do not prolong the useful lives of the assets, are expensed. Depreciation is computed on the straight-line method over the assets' estimated useful lives. Building improvements are depreciated over useful lives of 20 years, other property and equipment is depreciated over two to 10 years. The Foundation capitalizes fixed assets greater than \$2,000.

THE NRA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

Museum Collections

The Foundation has capitalized its museum collections, consisting principally of donated firearms, since its inception. If purchased, items accessioned into the collection are capitalized at cost, and if donated they are capitalized at their appraised value or fair value on the accession date. Gains or losses on the deaccession of collection items are classified in the statements of activities as with donor restrictions or without donor restrictions depending on the donor restriction, if any, placed on the item at the time of accession. Provisions are made to reduce museum collections to net realizable value. Museum collections are not depreciated, as the Foundation takes appropriate measures to perpetually preserve their cultural and historic value.

Split Interest Agreements

The Foundation is the beneficiary under several split interest agreements in the form of charitable lead trust and charitable remainder unitrust agreements. Under terms of the agreements, the Foundation has the irrevocable right to receive the annual payments during the life of the lead trust and/or remaining trust assets upon termination of the remainder trusts. Split interest agreements are recorded as an asset based on the actuarially computed fair value and adjusted as of the end of each year. The difference between the amount received for the agreement and its actuarially computed value at each year end is recorded as changes in present value of split interest agreement. Split interest agreements due in more than one year have been recorded at the present value of estimated cash flows. The discount rate applied ranged from 2.69% to 2.87% for the year ended December 31, 2018 and 2.4% to 2.6% for the year ended December 31, 2017, and incorporated future life expectancies ranging from 11 to 19 years for the year ended December 31, 2018 and 12 to 20 years for the year ended December 31, 2017.

Annuities Payable

Donors have established and funded gift annuity contracts. Under terms of the contracts, the Foundation has the irrevocable right to receive the remaining contract assets upon termination of the contract. Amounts payable under annuity contracts are recorded as a liability based on the actuarially computed value at the time of gift. The difference between the amount received for the contract and its actuarially computed liability is recorded as revenue. For both the years ended December 31, 2018 and 2017, the discount rate applied ranged from 1.2% to 3.4%.

Revenue Recognition

Unconditional contributions, whether without donor restrictions or with donor restrictions, are recognized as revenue upon notification of the unconditional gift or pledge and classified in the appropriate net asset category. Proceeds from FONRA fundraising events, net of direct benefit expenses paid by the FONRA event committees, are recorded in the period in which the event occurs. One half of the net proceeds from FONRA events are restricted for use by the FONRA State Fund committee in which the event was held. These proceeds are classified as with donor restrictions. Proceeds with donor restrictions become without donor restrictions when qualifying expenses have been incurred.

Pursuant to Financial Accounting Standards Board Accounting Standards Codification 958-605-25-27 contributions received by the Foundation with the NRA as the specified beneficiary are recorded as support by the Foundation, as the Foundation and NRA are financially interrelated entities.

THE NRA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

Outstanding Legacies

The Foundation is the beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently determinable. The Foundation's share of such amounts is not recorded until the Foundation has an irrevocable right to the bequest and the proceeds are measurable.

Valuation of Long-Lived Assets

Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less cost to sell.

Functional Allocation of Expenses

The costs of providing program services and supporting activities have been accounted for on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services, administrative, and fundraising expenses. Such allocations are determined by management on an equitable basis. Allocated expenses and the related allocation method used are as follows: management fees, meetings and travel, allocated based on time and effort; occupancy and certain other operating expenses, allocated based on square footage; depreciation and amortization, based on square footage and/or area of use; and certain printing and publications, based on area per page. Expenses not allocated are charged directly to their related functional expense categories.

Grant Program Expense

Grants are recorded as program expense in the year for which the Foundation's Board of Trustees approves the expenditure. The Foundation supports a wide range of firearms and safety-related public interest activities, including youth education, range development and improvements, wildlife and natural resource conservation, school security and firearm training, education and safety programs.

Tax Status

The Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and from state income taxes. In addition, the Foundation is not classified as a private foundation.

The Foundation follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

THE NRA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Adopted Accounting Pronouncements

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments in the ASU require entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The ASU did not have a significant impact on the Foundation's inventory balance.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are intended to make improvements to the information provided in the financial statements and the accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The ASU was adopted by the Foundation in 2018.

Pending Pronouncement

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional contributions and unconditional contributions. The updated standard will be effective for resource recipients for annual reporting periods beginning after December 15, 2018 and resource providers one year later. Management is currently evaluating the effect on the financial statements.

Subsequent Events

The Foundation evaluated subsequent events through March 13, 2019, which is the date the financial statements were available to be issued.

2. AVAILABILITY AND LIQUIDITY

The Foundation maintains a policy of structuring its financial assets to be available as its general operating expenses come due. This includes the appropriation of income from donor restricted endowments and contributions, in satisfaction of those restrictions.

The table below represents the Foundation's financial assets and liquidity resources available to meet general expenditures within one year as of December 31, 2018 and 2017:

THE NRA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

	2018	2017
Financial assets at year-end:		
Cash and cash equivalents	\$ 10,220,309	\$ 11,215,742
Investments, excluding amounts held for affiliates	75,259,234	80,017,862
Pledges and contributions receivable available in one year, net	2,733,835	2,020,906
Accounts receivable available in one year, net	322,287	334,558
Other Assets	832,388	908,669
Due from affiliates	5,004,794	5,000,067
Total financial assets	<u>94,372,847</u>	<u>99,497,804</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>73,585,622</u>	<u>76,238,644</u>
Financial assets not available to be used within one year	<u>73,585,622</u>	<u>76,238,644</u>
Financial assets available to meet general expenditures within one year	<u>\$ 20,787,225</u>	<u>\$ 23,259,160</u>

3. INVESTMENTS

Investments, at fair value, as of December 31, 2018 and 2017 consisted of the following:

	2018	2017
Money market	\$ 2,136,370	\$ 1,526,329
Equity securities	51,199,936	58,671,620
Fixed income securities	24,184,009	22,226,031
Total	<u>\$ 77,520,315</u>	<u>\$ 82,423,980</u>

Investment (loss) income for the years ended December 31, 2018 and 2017 included the following:

	2018	2017
Realized gains, net	\$ 111,798	\$ 305,458
Dividends and interest	2,360,362	1,835,414
Unrealized (loss) gain, net	(7,281,605)	8,172,149
Total	<u>\$ (4,809,445)</u>	<u>\$ 10,313,021</u>

**THE NRA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS**

4. PLEDGES AND CONTRIBUTIONS RECEIVABLE

At December 31, 2018 and 2017, donors to the Foundation have unconditionally promised to give amounts as follows:

	2018	2017
Within one year	\$ 8,540,622	\$ 3,347,875
One to five years	1,200,460	1,378,800
More than five years	279,425	221,700
	<u>10,020,507</u>	<u>4,948,375</u>
Less: discount on pledges receivable	(46,046)	(5,552)
	<u>9,974,461</u>	<u>4,942,823</u>
Less: allowance for uncollectible pledges	(803,000)	(481,000)
Total	<u>\$ 9,171,461</u>	<u>\$ 4,461,823</u>

Estate proceeds bequeathed and due to the Foundation in the amount of \$5,897,868 and \$1,173,793 were included in contributions receivable at December 31, 2018 and 2017, respectively.

5. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2018 and 2017 consist of:

	2018	2017
Buildings and improvements	\$ 777,206	\$ 777,206
Furniture, fixtures and equipment	919,887	920,428
	<u>1,697,093</u>	<u>1,697,634</u>
Less: accumulated depreciation	864,882	704,985
	<u>\$ 832,211</u>	<u>\$ 992,649</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$159,897 and \$164,886, respectively.

6. CREDIT AGREEMENT

The Foundation maintained a \$2,000,000 collateralized line of credit agreement with a bank, secured by cash and securities totaling \$9,640,633 at December 31, 2017. Under the terms of this agreement, for any borrowings, the Foundation would make monthly interest payments on the daily outstanding principal at a variable rate based on the 30-day LIBOR rate, plus 0.70%. The line of credit agreement expired September 30, 2018 and no amounts were outstanding at December 31, 2017.

THE NRA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

7. FAIR VALUE MEASUREMENTS

The Foundation follows the Codification Topic, *Fair Value Measurement*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The type of investments included in Level 1 include listed equities and listed derivatives.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to fair value measurements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The estimated fair values of the Foundation's short-term financial instruments, including cash and equivalents, and payables arising in the ordinary course of operations, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

THE NRA FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

The tables below present the balances of assets measured at fair value on a recurring basis by level within the hierarchy.

	As of December 31, 2018			
	Total	Level 1	Level 2	Level 3
Assets:				
Available-for-sale equity securities:				
Consumer discretionary	\$ 166,417	\$ 166,417	\$ -	\$ -
Consumer staples	47,674	47,674	-	-
Energy	7,936	7,936	-	-
Financials	99,815	99,815	-	-
Health care	132,857	132,857	-	-
Industrials	66,114	66,114	-	-
Information technology	335,866	335,866	-	-
Materials	16,590	16,590	-	-
Telecommunication	12,843	12,843	-	-
International equities	152,231	152,231	-	-
Multi-strategy stock funds	48,935,149	48,935,149	-	-
Stock funds - commodities	1,226,444	1,226,444	-	-
Total available-for-sale equity securities	<u>51,199,936</u>	<u>51,199,936</u>	<u>-</u>	<u>-</u>
Available-for-sale fixed income securities:				
Corporate bonds ^(a)	6,018,715	6,018,715	-	-
U.S. Treasury & agency	4,459,489	4,459,489	-	-
Multi-strategy bond funds	13,528,968	13,528,968	-	-
Mortgage obligations	129,025	129,025	-	-
Municipal bonds	47,812	47,812	-	-
Total available-for-sale fixed income securities	<u>24,184,009</u>	<u>24,184,009</u>	<u>-</u>	<u>-</u>
Money market	<u>2,136,370</u>	<u>2,136,370</u>	<u>-</u>	<u>-</u>
Total investments	<u>77,520,315</u>	<u>77,520,315</u>	<u>-</u>	<u>-</u>
Split interest agreements	<u>1,039,709</u>	<u>-</u>	<u>-</u>	<u>1,039,709</u>
Total assets	<u>\$ 78,560,024</u>	<u>\$ 77,520,315</u>	<u>\$ -</u>	<u>\$ 1,039,709</u>

^(a) Based on its analysis of the nature and risk of these investments, the Foundation has determined that presenting them as a single class is appropriate.

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As of December 31, 2017				
	Total	Level 1	Level 2	Level 3
Assets:				
Available-for-sale equity securities:				
Consumer discretionary	\$ 171,214	\$ 171,214	\$ -	\$ -
Consumer staples	47,161	47,161	-	-
Energy	8,713	8,713	-	-
Financials	139,619	139,619	-	-
Health care	127,520	127,520	-	-
Industrials	89,344	89,344	-	-
Information technology	326,095	326,095	-	-
Materials	21,145	21,145	-	-
International equities	161,581	161,581	-	-
Multi-strategy stock funds	55,686,323	55,686,323	-	-
Stock funds - commodities	1,892,905	1,892,905	-	-
Total available-for-sale equity securities	58,671,620	58,671,620	-	-
Available-for-sale fixed income securities:				
Corporate bonds ^(a)	5,700,579	5,700,579	-	-
U.S. Treasury & agency	4,821,877	4,821,877	-	-
Multi-strategy bond funds	11,520,215	11,520,215	-	-
Mortgage obligations	131,072	131,072	-	-
Municipal bonds	52,288	52,288	-	-
Total available-for-sale fixed income securities	22,226,031	22,226,031	-	-
Money market	1,526,329	1,526,329	-	-
Total investments	82,423,980	82,423,980	-	-
Split interest agreements	1,045,677	-	-	1,045,677
Total assets	\$ 83,469,657	\$ 82,423,980	\$ -	\$ 1,045,677

^(a) Based on its analysis of the nature and risk of these investments, the Foundation has determined that presenting them as a single class is appropriate.

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Money market funds, equity and fixed income securities are classified as Level 1 instruments, as they are actively traded on public exchanges.

Split interest agreements are classified as Level 3 instruments, as there is no market for the Foundation's interest in the trusts. Further, the Foundation's asset is the right to receive cash flows from the trusts, not the assets of the trusts themselves. Although the trust assets may be investments for which quoted prices in an active market are available, the Foundation does not control those investments.

For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3), *Fair Value Measurement* requires reconciliation of the beginning and ending balances, separately for each major category of assets and liabilities, except for derivative assets and liabilities, which may be presented net. The table below represents the reconciliation of the Foundation's assets measured at fair value on a recurring basis using significant unobservable inputs:

	2018	2017
Split interest agreements, beginning of year	\$ 1,045,677	\$ 1,273,037
Contributions	61,079	-
Distributions received	(16,629)	-
Change in value	(50,418)	(227,360)
Split interest agreements, end of year	<u>\$ 1,039,709</u>	<u>\$ 1,045,677</u>

8. NET ASSETS WITH DONOR RESTRICTIONS AND ENDOWMENT FUNDS

Net assets with donor restrictions are restricted as follows:

	2018	2017
Perpetual in nature	\$ 70,971,999	\$ 67,540,762
Purpose restricted program awards	39,066,484	31,656,117
Time restricted program awards	10,011,371	15,454,637
Other, passage of time	2,208,452	2,284,223
Total	<u>\$ 122,258,306</u>	<u>\$ 116,935,739</u>

The Foundation follows the Codification subtopic *Reporting endowment funds*. The Codification addresses accounting issues related to guidelines in the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the National Conferences of Commissioners on Uniform State Laws in July 2006 and enacted in the Commonwealth of Virginia on July 1, 2008 and in the District of Columbia on January 23, 2008. The Foundation includes all permanent donor restricted funds in its endowments. The Management of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of original donor restricted endowment gifts as of the date of the gift or Board designation, absent explicit donor stipulations or Board action to the contrary. As a result of this interpretation, the Foundation classifies as net assets with permanent donor restrictions (a) the original value of cash gifts donated to permanent donor restricted endowment, (b) the discounted value of future gifts promised to permanent donor restricted endowment, net of allowance for uncollectible pledges, and (c) the fair value of non-cash gifts received whereby the proceeds of any future sale are donor restricted to permanent endowment. Board designated endowment funds are classified in net assets without donor restrictions until utilized by the Foundation for the Board designated purpose. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

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- The duration and preservation of the fund
- The purposes of the Foundation and donor restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. The investment policy of the Foundation is to achieve, at a minimum, a real (inflation adjusted) total net return that exceeds spending policy requirements. Investments are diversified both by asset class and within asset classes. The purpose of diversification is to minimize unsystematic risk and to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total portfolio. The amount appropriated for expenditure ranges from 1% to 5% of the endowment fund's fair value as of the end of the preceding year, as long as the value of the endowment does not drop below the original contribution(s). From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration, as a result of unfavorable market fluctuations. In such instances, no further appropriations for expenditures are made from the donor restricted endowment until the fair value exceeds the level the donor or UPMIFA requires. All earnings of the donor restricted endowment are reflected as net assets with donor restrictions until appropriated for expenditure in the form of program grants.

The Foundation's endowments are composed primarily of funds with donor restrictions. The changes in endowment net assets for the years ended December 31, 2018 and 2017 are as follows:

	Year Ended December 31, 2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 979,400	\$ 82,995,400	\$ 83,974,800
Interest and dividends, net	33,845	1,646,913	1,680,758
Net depreciation	(99,520)	(5,078,631)	(5,178,151)
Designations and contributions	397,131	851,135	1,248,266
Amount appropriated for expenditure	(48,991)	(2,102,498)	(2,151,489)
Other changes	<u>424</u>	<u>14,052</u>	<u>14,476</u>
Endowment net assets, end of year	\$ <u>1,262,289</u>	\$ <u>78,326,371</u>	\$ <u>79,588,660</u>

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	Year Ended December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 561,692	\$ 75,370,679	\$ 75,932,371
Interest and dividends, net	21,094	1,571,879	1,592,973
Net appreciation	82,509	6,185,334	6,267,843
Designations and contributions	317,982	1,904,474	2,222,456
Amount appropriated for expenditure	(5,873)	(2,034,970)	(2,040,843)
Other changes	1,996	(1,996)	-
Endowment net assets, end of year	\$ <u>979,400</u>	\$ <u>82,995,400</u>	\$ <u>83,974,800</u>

The related assets are included in investments, museum collections and pledges and contributions receivable.

9. OPERATING LEASES

The Foundation leases warehouse space and equipment under operating leases, cancelable with one year's notice, with terms expiring through 2019. The annual minimum payments related to these obligations as of December 31, 2018 are as follows:

2019	\$ <u>186,150</u>
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Total lease expense for each of the years ended December 31, 2018 and 2017 was \$186,150.

10. RELATED PARTIES

The Foundation is affiliated with the NRA by virtue of the control vested with the NRA's Board of Directors to appoint the Trustees of the Foundation. The Foundation has received certain benefits from this affiliation at no cost, among which are various administrative and support services. Management has determined that the fair value of these benefits is minimal, and accordingly, no amounts are reflected in these financial statements.

The Foundation reimburses the NRA for certain expenses, such as salaries, benefits and general operating expenses, paid by the NRA on the Foundation's behalf. These expenses totaled \$17,482,315 and \$6,017,801 for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, \$1,035,620 and \$222,837, respectively, was owed to the NRA and included in due from affiliates for reimbursements and pass through funds still held by the Foundation. \$27,465,562 and \$29,319,729 of funds that are designated for the NRA as beneficiary are included in investments and net assets with donor restrictions as of December 31, 2018 and 2017.

During 2017, the Foundation extended a short-term loan in the amount of \$5,000,000 to NRA, whereby NRA's accounts receivable served as collateral. The loan included annual interest payments of 7% and originally expired February 2, 2018. In January 2018, the agreement was amended to extend the loan to June 2, 2018 with interest

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to be paid monthly. The loan was repaid in March 2018, before the extended due date. Subsequently in 2018, the Foundation extended another secured loan in the amount of \$5,000,000 to NRA, whereby the NRA's accounts receivable serve as collateral. The loan includes monthly interest payments of 7% and expires October 3, 2019. At December 31, 2018 and 2017, \$5,000,000 was payable under the respective agreements.

The Foundation funded certain qualified NRA programs with grants totaling \$13,498,464 and \$18,812,141 for the years ended December 31, 2018 and 2017, respectively.

Endowment contributions and gift annuities benefiting NRA Civil Rights Defense Fund, NRA Freedom Action Foundation, and NRA Special Contribution Fund are pooled with Foundation investments.

The following amounts were due from (to) affiliates at December 31:

	2018	2017
National Rifle Association	\$ 3,964,380	\$ 4,833,738
NRA Civil Rights Defense Fund	(2,562,029)	(1,614,831)
NRA Freedom Action Foundation	(97,862)	(215,667)
NRA Special Contribution Fund	(1,041,771)	(1,221,768)
Total	<u>\$ 262,718</u>	<u>\$ 1,781,472</u>

